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ABSTRACT

The equity of student financial aid as it is distributed among full-time, dependent freshmen students of different parental incomes and at various types of institutions is examined. The first part of this paper clarifies concepts and definitions surrounding student financial aid. Calculation of the ability to pay, the financial standard of measure, net cost to the family, and net cost to the student are discussed in an effort to establish a common base for equity in determining expected amounts of aid or contributions. Estimates of student budgets, the direct cost of attendance to the student, and the financial resource composition of the cost of attendance are presented to identify differences among students of varying parental income. The disparity between expected parental contribution and actual parental contribution is discussed for different income categories and types of institutions (public, private, four- and two-year). The results indicate that, in general, parental contribution as a percentage of the student's budget is constant across all sectors except for students at two-year public institutions. The resource composition of budgets for students attending community colleges show that they pay a larger percentage of their educational costs than students from any other sector. Institutional expenditures per student dollar expenditure are also investigated for each institutional type. (SF)

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The Equity of the Distribution of Student Financial Aid

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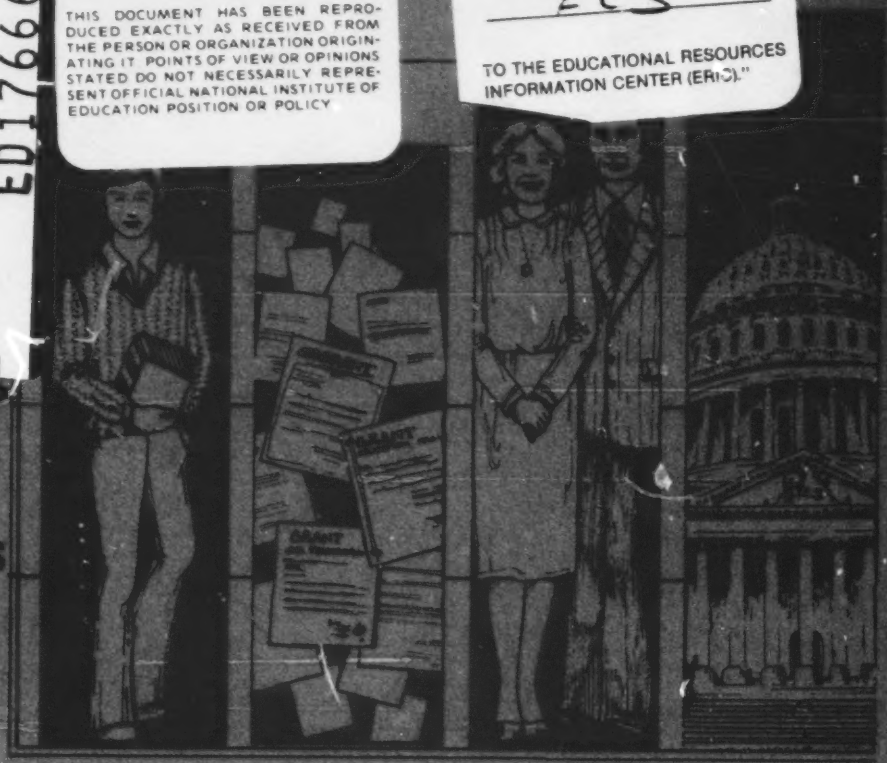

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Education Finance Center
Education Commission of the States

The Equity of the Distribution of Student Financial Aid

Education Finance Center

Education Commission of the States

Report No. F79-2

by William Hyde

Education Finance Center
Department of Research and Information
Department of Postsecondary Education

Education Commission of the States
Denver, Colorado
Warren G. Hill, Executive Director

August 1979

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Executive Summary

The purpose of this report is to evaluate the equity of student financial aid as it is distributed among students of different parental incomes and at various types of institutions. As any standard of equity of what a student, a parent, or society should pay to support a student's cost of education ultimately is no more than a consensus of personal judgements, no one standard is inherently better than another. Standards of equity must be judged in the context of the values society holds. Consequently, the degree of equity achieved varies according to the criterion of equity selected.

One approach taken is to compare actual and expected contributions. Under ideal conditions, there should be no discrepancies between the two. To the extent that differences do exist and are the result of the distribution of student financial aid, one can argue that student financial aid is not achieving its objective (or that the standard of expected contributions is not properly structured).

Giving particular attention to student equity, one measure evaluated is that of having the student pay a fixed percentage of the cost of attendance. Another is to hold the student responsible for a fixed dollar amount, regardless of the cost of attendance. Another measure by which equity can be assessed is to have the student pay a decreasing proportion of an increasing cost of attendance. This position is a compromise between the first two standards in that a student pays more to attend a more expensive institution but is partially relieved of paying what otherwise might be a too large dollar amount. Finally, equity is evaluated in terms of the amount of institutional expenditures made on behalf of a student for each dollar spent on education by the student.

The resource composition of the student's cost of attendance shows that middle income students pay more than their poorer or wealthier colleagues. In comparison with an expected contribution of one-third of the cost of attendance, middle income students pay more than they should and other students pay less than they should. If the student contribution is set as a fixed dollar amount of $1,500, then the average student in no income category pays enough (except some students in private four-year institutions), although middle income students come the closest to paying what is expected of them according to this standard.

As a percentage of the cost of attendance, community college students pay more than students attending elsewhere, although they receive as much grant money as public four-year students. The difference is due to the parental contribution portion. Parents of students at community colleges contribute less than parents of other students even when they have the same income.

If one assesses the equity of the student contribution in terms of the student paying a smaller proportion of costs, but more dollars, for more expensive education, the community college student still does not fare well. While the cost of attendance is more for a student at a private two-year institution than at a public two-year institution, the community college student on average pays more dollars than the student at a private two-year institution.

The equity situation is changed, however, if one compares the amount a student pays with the institutional expenditures made on behalf of the student. Community colleges provide more institutional expenditures per dollar paid by a student than private two-year institutions, although both types of institutions offer less financial resources per student dollar than either public or private four-year institutions.

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Introduction

The question of the appropriate level and distribution of student financial aid seems to be perpetual. As yet there is no clear understanding of the effect that various student financial aid programs have when used together — either with respect to the particular individuals financial aid assists or as to what student financial aid is meant to accomplish. Until the purpose of providing financial assistance becomes more explicit and is based on objective or more generally accepted standards, the criteria for allocation of student financial aid are subject to criticism from one perspective or another.

A common subject of discussion that illustrates the fact that the criterion for distributing aid is one of consensual personal judgment is that concerning the expected contribution of parents to their children's education costs. The College Scholarship Service of the College Entrance Examination Board, the federal government, and other agencies have separately derived schedules of monetary contributions that a student's parents "ought" to pay. The origin of these judgments of what one should pay is historical information about what parents actually pay. Over the years, these judgments have been modified in many different ways in an effort to identify and include in the schedule those attributes of parents that reflect their ability to pay. Much attention has been given to determining how best to measure ability to pay and what adjustments should be made to the expected contribution schedules. Discussion of this topic is likely to continue for some time.

There are, however, other issues of the appropriate criteria for allocation of student financial aid that have not received as much attention. It is the purpose of this paper to point out three of these issues.

One is to explain some of the semantic confusion over terms used to describe various concepts central to the process of determining the allocation of financial aid. Terms such as cost of attendance, net price, and unmet need — well-known terms in the financial aid field — have not been defined consistently. Another is to provide estimates of the distribution of financial aid based on data from 1977 and 1978. What we think we know about the distribution and equity of student financial aid is often suspect because our knowledge rests

upon either fragmentary data or data that are not current enough to reflect the contemporary state of student financial aid programs and funding levels. The third is to indicate how the equity of the distribution of aid varies according to the criterion of equity selected.

The first part of this paper tries to clarify the confusion of concepts and definitions surrounding student financial aid. In Chapter I, definitional considerations of equity are discussed. Chapter II contains a discussion of the components of the student budget and shows how the relationships among them change depending on the unit of observation and equity standard chosen. Chapter III provides data on students budgets, their differences among income categories and institutional sectors, and the resource structure of the budgets. Chapter IV discusses the disparities between expected distributions of aid under various definitions of equity and actual distributions. These disparities are examined by type of institution in Chapter V. Chapter VI gives information on the budget components of students at community colleges (public two-year institutions) in comparison with students at other types of institutions. Finally, in Chapter VII an additional measure of equity is applied to students attending in the four institutional sectors.

The scope of the paper is limited to the issue of equity among full-time, dependent freshmen students. It is also limited to consideration of equity in terms of direct, monetary costs to the student and direct student financial aid.

I. Definitional Considerations of Equity

Conceptually, equity is easy to define. For instance, equity can be defined as providing equal educational opportunity. This definition, however, is of no help to policymakers who must decide how actual dollars will be allocated. For them, equity must be defined in an operational context. The choice of a basis for equity rests on personal values, but no specification of equity is workable without deciding what is an appropriate (a) unit of observation, (b) basis of calculation of ability to pay, and (c) financial standard of measure to be used in determining expected amounts of aid or contributions.

The Unit of Observation

In the context of need-based aid, one source of confusion surrounding discussion of equity in higher education stems from an unclear distinction of whether one is talking about the student's financial responsibilities, the student's parents' responsibilities, or both.

In the past, the vast majority of college students have been financially dependent upon their parents. Financial needs assessment formulas were developed with this population in mind. More recently, the underlying assumptions of student dependency and the responsibility of the parents to provide financial support for their children's postsecondary education are less valid. A growing proportion of students are independent of their parents, and the contribution that parents actually make may be less than the contribution that is expected of them (according to some schedule of contributions, for example, such as that derived by the College Scholarship Service). This presents a dilemma. On the one hand, if parents are not willing to provide the level of support "expected" of them, it seems inappropriate to penalize students for their parents' behavior. On the other hand, basing aid awards strictly on the student's financial circumstances creates a moral hazard. With the student as the unit of observation, there is an incentive for parents to reduce their support with the expectation that grant aid will replace their reduced contribution dollar for dollar.

Although this incentive would exist, it is probably fair to assume that parents generally would rather provide financial support for their children's education than jeopardize their children's education given the uncertain prospect of reduced educational expenditures. The analyses in this report point out the differences that result by using different units of observation.

Basis of Calculation of Ability to Pay

Calculations of the expected contribution of parents and of the student are both based on measures of ability to pay, but the basis for parents is different than that for students. Parents' expected contribution is primarily a function of current and past income. The major determinant is current income, but assets, made possible by saving or investing income earned previously, also are taken into account in calculating the expected parental contribution.

Students, in contrast to their parents, have very few assets and consequently the generally accepted basis of measuring their ability to pay is current and prospective, future income. Current income consists of student earnings while in school plus summer earnings. The basis of a student's ability to contribute toward the cost of his or her education from future income is often based on what is considered to be a reasonable loan repayment schedule.

The task of distinguishing between the basis of calculating ability to pay of the student and of the parents and making arbitrary judgments about what portion of the financial obligation should be met from past, current, or future earnings is difficult. It is mentioned only to point out the inconsistent time dimension used in assessing what is one's expected contribution and to suggest that greater uniformity in the treatment of parents and students be sought.

The Financial Standard of Measure

An important implication of the basis of calculating the student's ability to pay is the standard of measure used in assessing the degree of equity achieved. It is argued, on the one hand, that the student contribution should be a fixed amount, and, on the other hand, that a student should pay more for more costly education. The contention that students should pay a fixed dollar amount regardless of the cost of attendance of the institution they choose stems from the line of reasoning that a student's expected contribution is based on average current and future earnings.

In contrast to expected parental contributions which vary widely because of the wide variation of income and assets of parents of

college-aged youths, calculations of expected student contributions from both current and future income vary only slightly. The variation in expected current earnings is small because students, spending much of their time on school related activities, do not have many hours available for work. Furthermore, the job opportunities for college students are limited in number and usually pay close to the minimum wage.

Although the dispersion of income and assets of today's college students is eventually likely to be as great as that of their parents, one can only hazard a guess as to the future location within that dispersion of any particular individual who is a student today. Consequently, a popular practice has been to base the expected student contribution from future income on an hypothetical average student's expected income and to calculate a maximum student loan amount in terms of what is a reasonable financial burden for the average college graduate. The outcome of this line of reasoning is that a student's expected contribution — a function of the sum of a loan amount considered reasonable to repay plus some portion of an amount that the student is able to earn during the school year — varies only slightly. Only a small step is required to draw the conclusion that a student's expected contribution should be the same for all students.

In contrast to this position, others argue that the student's contribution should equal a certain percentage of the direct cost of attendance to the student. For example, the National Association of Independent Colleges and Universities supports this concept and recommends that the percentage be 25 percent.

Each approach has its advantages and disadvantages. The criticism of the fixed-percentage approach is that the proportion of costs for which the student is responsible equals too large a dollar amount at expensive institutions.

Setting the student contribution at a fixed dollar amount for all students in all situations can be criticized also. Basing the dollar amount on calculations of what a student could earn during the year plus the loan amount that a student could financially manage to repay generates a student contribution in the range of $1,000 to $2,000. The criticism of this measure is that students attending inexpensive institutions would be responsible for nearly the full cost of attendance while students attending expensive institutions might pay as little as a quarter of the direct student cost of attendance. Still others argue for a minimum fixed contribution from the student for attendance at most institutions, with an additional

contribution from the student if he or she attends one of the more expensive institutions.*

For this report, the resource components of the student's direct educational costs are discussed in terms of both percentages and dollar amounts of the total budget derived from different sources.

*See the policy statement of the National Association of Independent Colleges and Universities for the 1979 annual meeting; "A Study of the Work/Loan Expectations Faced by Recipients of Minnesota State Grants and Scholarships" by the Department of Finance, State of Minnesota, 1979; and "An Approach to Federal Student Financial Aid — Concepts and Recommendations," by the Postsecondary Programs Division of the Office of Planning, Budgeting, and Evaluation in the U.S. Office of Education, 1978.

II. Definitions of the Resource Components of Cost

Each student's direct cost of attendance is met with resources from his or her parents, his or her own financial resources, and from sources outside the family — generally grants. These three sources of financial support are referred to, respectively, as the parental contribution, the self-help or student contribution and grants. These three elements can be viewed in different, but related contexts.

Net Cost to the Family

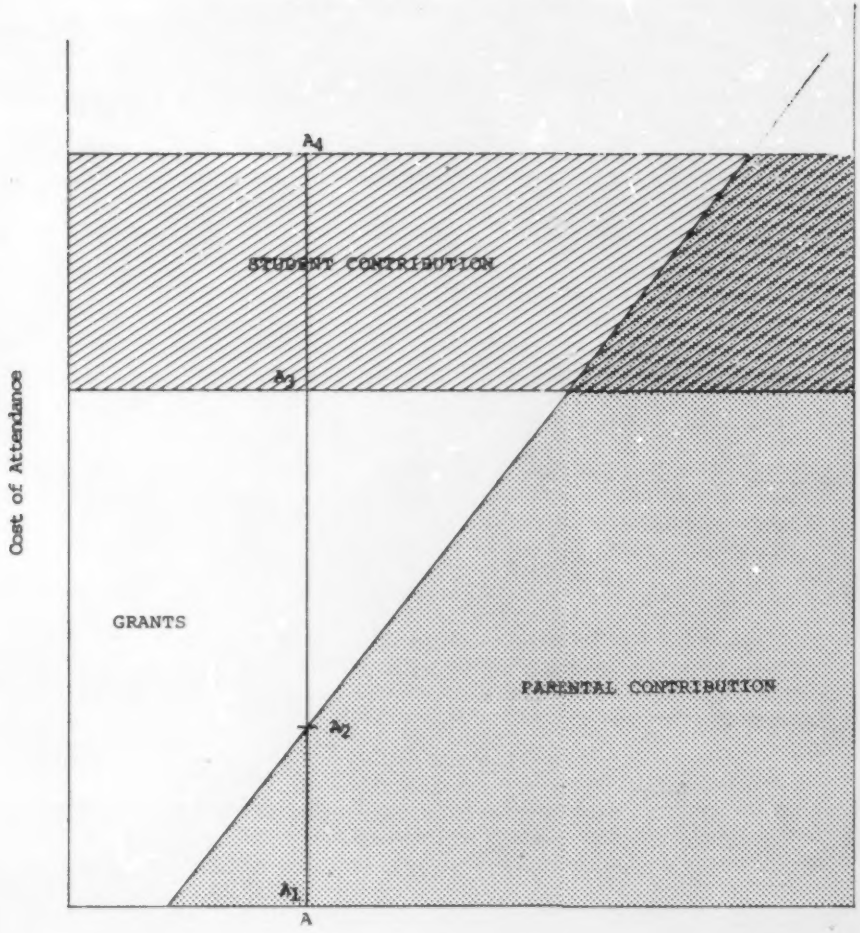
If one assumes that a student and his or her parents jointly are responsible, according to their ability to provide financial support, for the student's education, the family faces an initial cost of attendance. Given a certain ability to pay, the family may receive grant assistance that reduces the amount that the family must actually pay. The net cost to the family is the amount that the family must pay after adjusting the cost of attendance for grants received. The net cost to the family is composed of the student contribution and the parental contribution.

Schematically, the share of the cost of attendance that each of the three components comprises is illustrated in Figure 1. The cost of attendance is the total direct student cost of attendance. The student contribution portion, composed of work earnings, savings and loans, is the same for all students. The balance of the funds comes from either grants or parental contributions, and they are inversely related, as shown by the diagonal line separating grants and the parental contribution. If parents are able to contribute heavily to their child's education, the student is expected to receive little or no grant assistance, and vice versa.

For student A (depicted by the vertical line at point A on the horizontal axis in Figure 1), cost of attendance equals A_4A_1. A_4A_3 equals the student contribution; A_3A_2 equals the grant amount; and A_2A_1 equals the parental contribution. Under this scheme of cost apportionment, while the parental contribution and the student contribution are separated, there is little interest in separating them because the parents and student are viewed as jointly responsible for this share of the costs. For example, one family may decide to have

FIGURE 1

RESOURCE COMPOSITION OF THE
DIRECT COST OF ATTENDANCE TO THE STUDENT



the student take loans while another family similarly situated may prefer to have the parents take loans to finance the family's share of student costs.

Net Cost to the Student

If one assumes that the student is the unit for which equity is sought, the cost of attendance is reduced by both grants and the parental contribution to yield a net cost to the student (which is equal to the previously-mentioned student contribution).

In both of these net cost approaches, the total cost of attendance is reduced to a net cost by grants, or grants and parental contributions. That is, the amount of external assistance, grants in the case of net cost to the family, plus parental contribution in the case of the net cost to the student, is based upon some social criterion, but the imposition of a social value in the criterion is not made explicit in either of these contexts. The discussion of financial need does draw attention to the inherent value judgments that are made in determining need and expected contributions.

Financial Need of the Student*

In the ordinary sense, the word "need" means that there is a lack of something. In talking about student financial aid, the use of the word "need" is a bit misleading. In a literal sense, if an individual has financial need, one might reasonably assume that the individual does not have sufficient resources to meet his or her educational costs. Consequently, the person would not be enrolled. In fact, many individuals with need are enrolled.

This paradox results from the fact that the need is not an absolute need but a relative one. Need, in the conventional student financial aid language, is a calculated figure based on judgment of what a particular student or family is expected to contribute given certain standard indicators of ability to pay, such as income, assets, family size, and extraordinary debts and expenses.

When a family actually pays more than is expected, the "umet" need (actual contribution minus expected contribution) is "met" through the additional financial sacrifice of the family. Consequently, total need of the student is defined as the cost of attendance minus the expected family contribution with the expected family contribution equal to the sum of the expected parental contribution plus the expected student contribution. The implication is that once a family

* In this section the student, parents and family are discussed together.

has paid what it "ought" to pay based on its ability to pay, any remaining student cost of education should be met with grant assistance. Ideally, total need should equal grants received, and the actual family contribution should equal the expected family contribution. However, grant awards do not always equal total need. In fact, government appropriations for grant programs generally fall short of the level necessary to meet total need. The result is that many families whose expected family contribution is less than the cost of attendance have to contribute more than is expected of them. This situation is depicted in Figure 2 by student B. Student B receives a grant of B_4B_3 although he or she would receive a grant of B_5B_2 if more funds were available. The difference between actual family contribution and expected family contribution is the sum of B_3B_2 and B_5B_4. In the case of student B, part of the additional sacrifice is made by the parents (B_3B_2) and part by the student (B_5B_4).

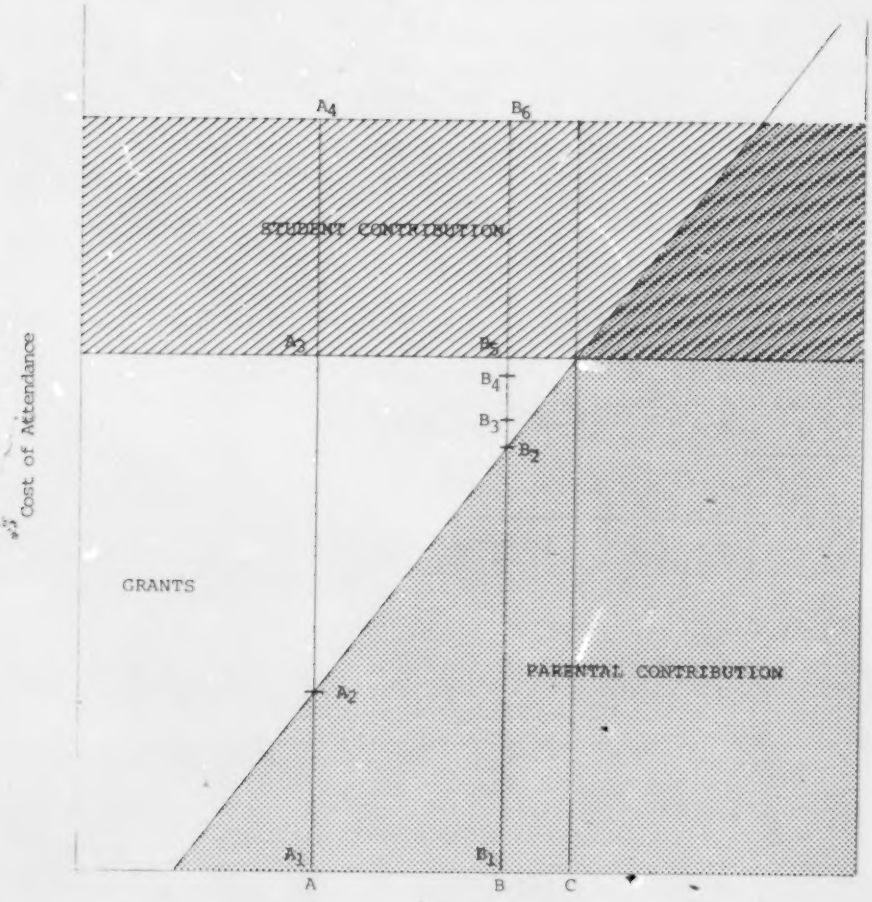
The reverse situation could also occur, in which the actual family contribution is less than expected even though the expected family contribution is less than the cost of attendance. That is, a student's parents may not be willing to pay what is "expected" of them.

The expected family contribution also exceeds the actual family contribution for families whose expected contribution is greater than the cost of attendance, as is the situation for any family with income above that of the level of student C. (In many of these families, the expected student contribution is paid by the parents.) For these families the cost of attendance could be raised without incurring any positive need, and there are occasional discussions of raising tuition at institutions and cycling the additional revenues into grant awards to allow the equalization of actual and expected family contributions to be extended into higher income levels.

The purpose of this chapter has been to explain different ways of viewing the resource composition of the direct cost of education to the student. When the approaches are graphically represented, it becomes apparent that differences among the approaches are semantical, definitional or the result of different assumptions about the unit of observation.

FIGURE 2

RESOURCE COMPOSITION OF THE
DIRECT COST OF ATTENDANCE TO THE STUDENT



III. Financial Resource Composition of the Student Budget

In this chapter estimates of student budgets, or the direct cost of attendance to the student, and the financial resource composition of the cost of attendance are given to identify differences among students of different parental income. The estimates are based on student-reported information of the dollar amounts that they expect to receive from various sources to meet their educational costs.*

The data are from the fall 1977 and 1978 national survey of freshmen, undertaken by the Cooperative Institutional Research Program (CIRP) at the University of California at Los Angeles. Data in this report are drawn only from first-time, full-time, dependent students included in CIRP's freshman normative surveys.

An average budget was calculated for students in each of 14 parental income categories attending each of four institutional sectors: public four-year (including universities), public two-year, private four-year (including universities) and private two-year institutions. A national mean was calculated by weighting the four mean sectoral budgets.

Figure 3 gives the average 1977-78 student budget for 14 parental income categories and shows the amount of the cost of attendance met through student contributions, parental contributions and grants.**

Dollar Composition of the Budget

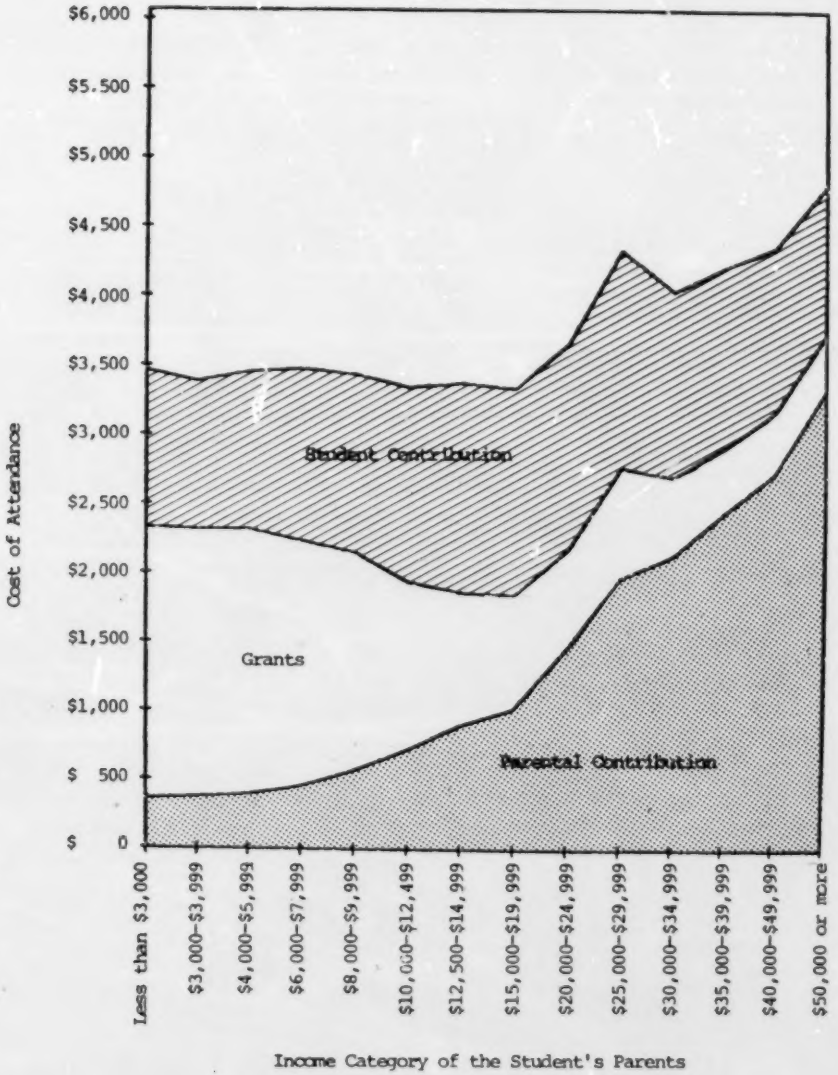
The schematic apportionment of contributions and grants in Figure 1 is only roughly portrayed by the actual apportionment in Figure 3. The average direct monetary cost of attendance to the student in 1977 was slightly over $3,300 for all students with parental income less than $20,000, but then increases to about $4,200 for higher

*See Appendix A for a more complete description of the calculation of the budgets.

**The 1978 data, while more current than the 1977 data, understate actual amounts; consequently the 1977 data are used for discussion of actual dollar amounts, and 1978 data are used for discussion of percentage distributions. See Appendix A for further discussion.

FIGURE 3

ACTUAL FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT, IN DOLLARS: 1977



income parents.* The amount that parents contribute toward the student's budget increases with their income. Low income parents pay about $400. The amount increases to about $1,000 for parents in the $15,000 to $19,999 income category, and for those with incomes of $50,000 or more, the average contribution is $3,300.

Grants compensate substantially for the limited contribution of parents of low income. For parents with less than $6,000, the average grant amount is $1,900 ($2,300 - $400). As parental income rises above $6,000 the grant amount declines rapidly to $600 to $800 for incomes between $15,000 and $29,999 and then more slowly to smaller amounts for incomes of $30,000 or more.

The student contribution averages $1,391 but is $292 greater for those students of parental income of between $12,500 and $29,999 than for students with either more or less wealthy parents.

Percentage Composition of the Budget

Displaying the resource composition of the student budget in percentages emphasizes the greater contribution that middle income students make toward the cost of their education. Figure 4 shows the distribution in percentages using fall 1978 data.

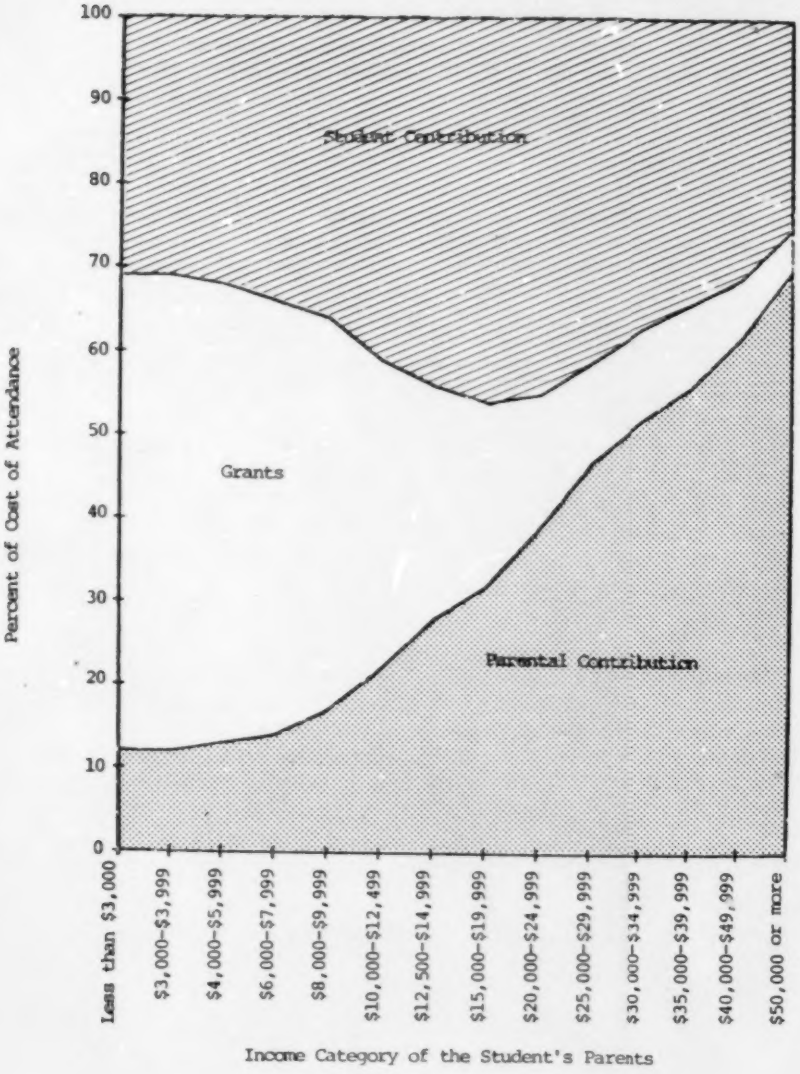
For students with parental annual income of less than $3,000, the parents pay, on average, 12 percent of the student's costs. The student's contribution on average is 31 (100-69) percent of the budget, and grants constitute 57 (69-12) percent of the student's direct cost of attendance.

For a student from a family with parental income of between $15,000 and $19,999, the student contribution is 46 percent while for students of incomes with less than $8,000 or with $35,000 or more income the student contribution is less than 35 percent of their costs. Considering the debate over the need for greater financial assistance to middle income parents and the alleged "squeeze" they are experiencing, the shape of the parental contribution and student contribution portions in Figure 4 comes as a surprise. The issue of the squeeze is presented as one in which middle income parents are paying too much for their children's education. Figure 4 suggests that it is the student of the middle income parents — not the parents — who is bearing too large a financial burden. To examine this issue

*The sharp jump and peak in the student budget for the $25,000 to $29,999 income category appears to be an anomaly. Budgets calculated for 1978 show a more gradual increase throughout the income categories. A linear regression of the budgets on the income categories shows that the expected budget for the highest income category is only 10 percent more than for the lowest income category.

FIGURE 4

ACTUAL FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT



further, an adjustment was made to the student contribution in an effort to determine if the "true" student contribution might be different than that indicated in Figure 4.

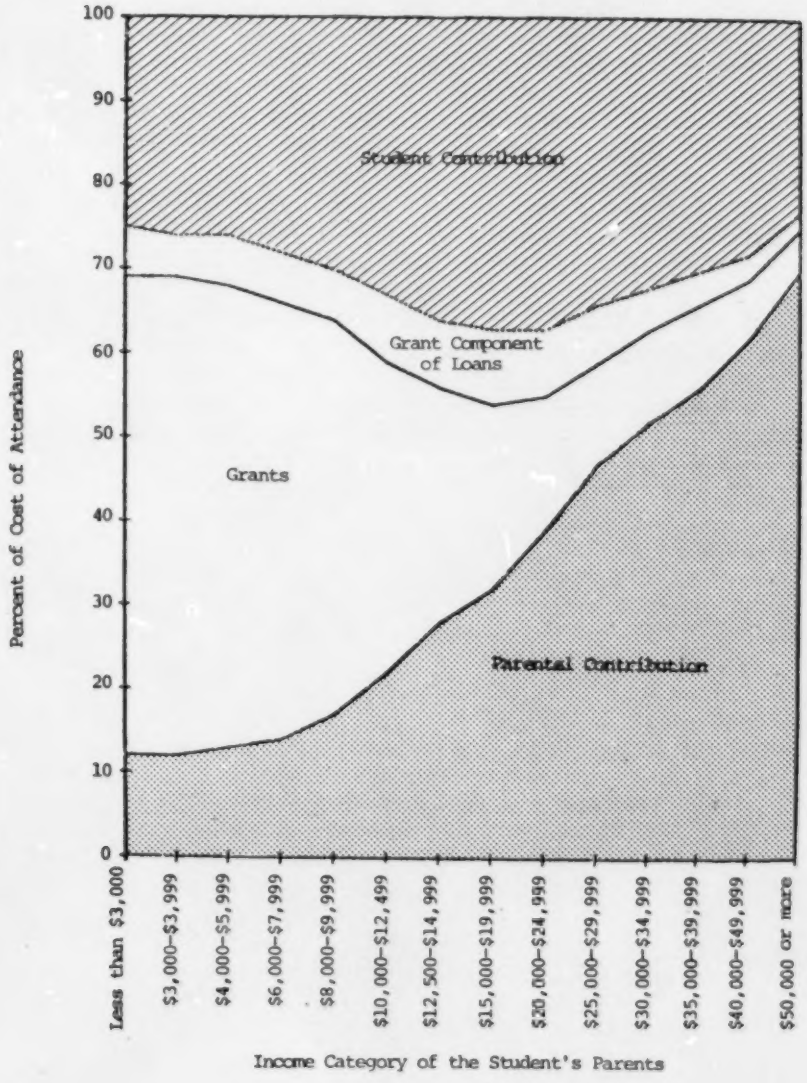
The Grant Component of a Loan

The student contribution consists of funds from working, either part-time or full-time, during school or during summers, savings, earnings from the student's spouse, and loans used to meet the student's education costs. Loans, however, while considered a part of a student's self-help component, should not be considered completely as self-help because loans generally are subsidized. Federal education loans bear an interest rate that is substantially below the market interest rate. Guaranteed Student Loans (GSL) have a 7 percent interest rate for the student, and National Direct Student Loans (NDSL) have a 3 percent interest rate. Furthermore, students pay no interest on the loans for at least as long as they are in college. Consequently, a "loan" is part loan and part grant, and, therefore, the true student contribution includes only the loan portion of loans. To separate the grant component from the loan component of a loan, the present discounted value of loans to freshmen was calculated using a 10 percent market interest rate and a repayment period of 10 years. The result is that about half of a GSL is a grant and about two-thirds of a NDSL is a grant. Assuming that other types of loans are about the same as GSLs, in terms of the present discounted value, the same value was assigned to other loans. With these adjustments made to the loan amounts, the student contribution and grant component were recalculated, and the adjusted student contribution is shown in Figure 5.

The effect of the adjusted student contribution is to reduce the student contribution by about 2 to 9 percent of the budget. The largest reduction is for middle income students (parental income level of $15,000 to $19,999), who are the heaviest loan borrowers. For high income students, who borrow the least, the reduction is the smallest. Lower income students receive an additional 6 percent of their budget in grant aid as a result of the grant element of the loans. The distribution among income groups of the grant component of loans does not, however, alter the basic shape of the student contribution profile. The middle income dip that exists in the student contribution also persists in the adjusted student contribution although it is slightly less accentuated. In the following chapters, only the adjusted student contributions are shown.

FIGURE 5

ACTUAL FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT



IV. Disparities Between Actual and Expected Financial Resource Composition of the Student Budget

As stated in Chapter 1, there are several opinions regarding what should be the students' and parents' financial responsibility for the cost of the student's education. The shape of any profile representing an expected parental contribution schedule depends upon what factors are included in a formula and how the various factors are counted. Although there is no single standard that is used for measuring expected parental contribution (EPC), general estimates can be useful for comparison with actual parental contributions (APC). In this section, two crude guidelines are used. One is drawn from the College Scholarship Service (CSS) approach but is based only on gross income and excludes other considerations such as taxes, family maintenance allowance and assets. Depending upon the size of the adjustments and the distribution of them among the population, the calculated CSS expected contribution for typical parents could be more or less than the amounts indicated by basing the expected parental contribution only on gross income. The second measure is that specified in determining Basic Grant awards and is discussed later.

The student contribution can also be defined in several ways. In this instance, the expected student contribution is defined in two ways — as one-third of the student's budget (ESC_{33}), approximating the empirical average of 32.6 percent; and as $1,500 ($ESC_{1500}$), an amount within the range of expected self-help estimates based on earnings during the school year plus a reasonable loan burden. Figure 6 shows both the actual and expected student and parent contributions in percentages. The expected student contribution measure of a third of the cost is used in Figure 6. The expected student contribution standard of $1,500 (expressed as a percentage of the 1977 cost of attendance) is discussed subsequently.

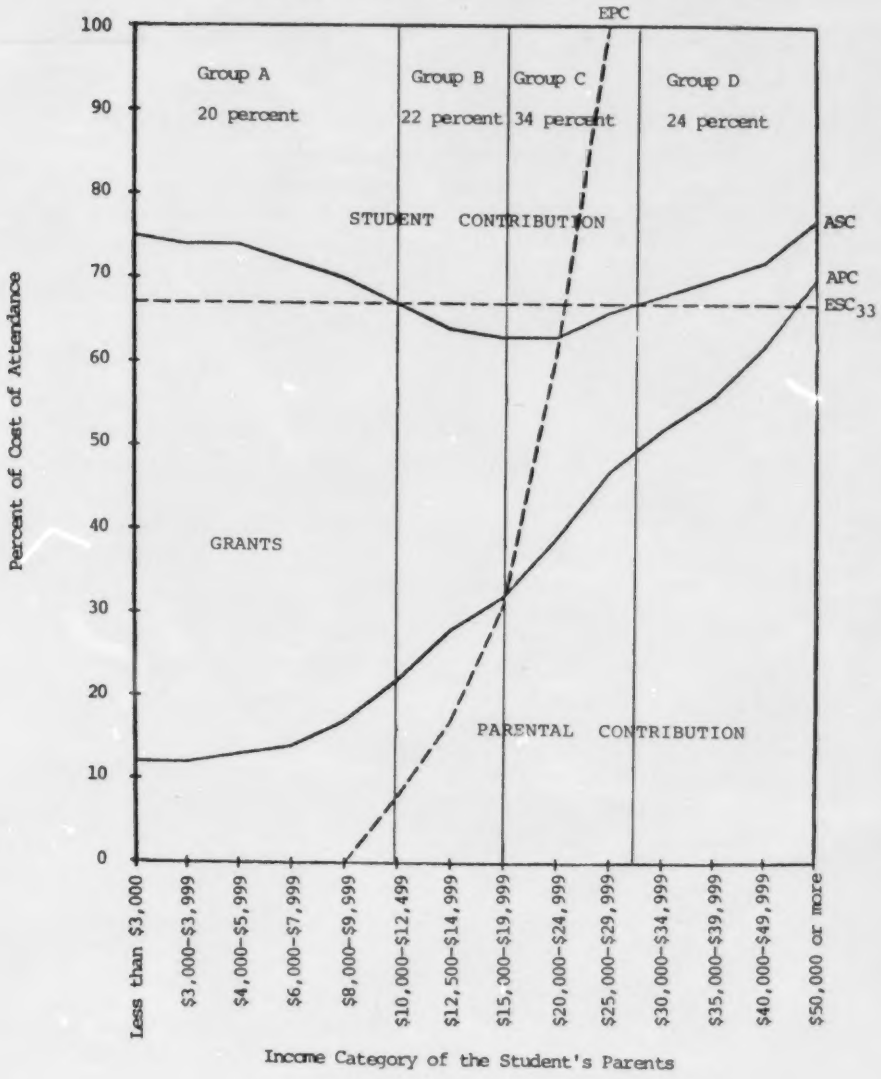
Disparities Among Different Income Categories

From Figure 6 one can see the disparities between the actual and expected resource composition of the student's costs. For students with parental income less than $12,500 (Group A), parents pay 12 to 22 percent of the student's cost of attendance although no or only a small contribution is expected of them according to the line marking

FIGURE 6

ACTUAL AND EXPECTED FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT, 1978

(Showing Expected Student Contribution Equal to One-Third)



the EPC border. The student, however, contributes less than is expected of him or her according to the expected student contribution standard of paying one-third of the cost, indicated in Figure 6 by ESC_{33}. Consequently, from the parents' perspective there is unmet need of 12 to 17 percent of the budget. From the student's point of view, he or she has overmet need, contributing up to 6 percent less than expected of him or her. The net effect on the family is the sum of the parents' and student's undermet and overmet need. On average, families in Group A, which equal 20 percent of the student population, have unmet need.

A student in Group B or C contributes more than is expected of him or her although some of the parents of these students (those in Group B — 22 percent) contribute more than is expected of them, and, thus, there is an unmet need for the family. For parents in Group C there is an overmet need, but the outcome for the family is ambiguous. At an income level just above the point at which the EPC line intersects the actual parental contribution line, the student unmet need is greater than the overmet need of the parents, but the expected parental contribution line rises so rapidly with income at this income range that the excess of expected parental contribution over the actual parental contribution quickly more than compensates for the unmet student need to yield an overmet need for the family.

For families in Group D (24 percent), both student and parents contribute less than they should.

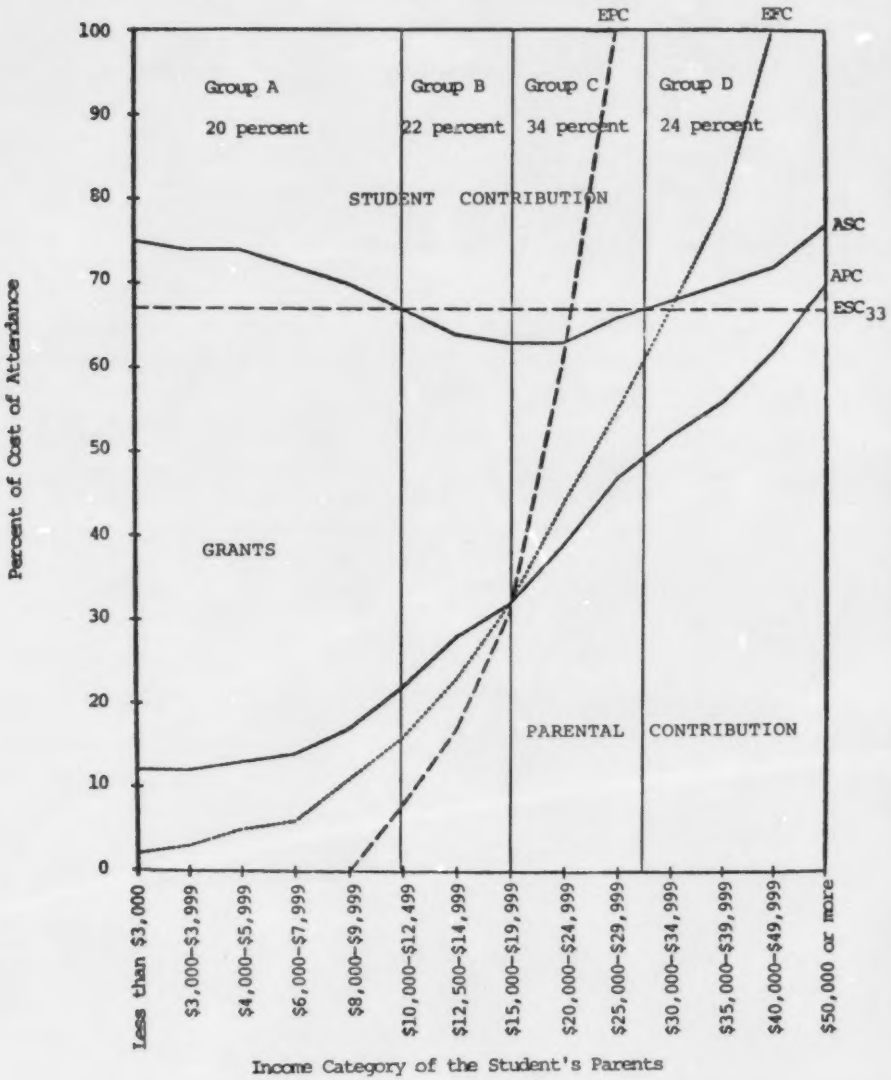
Whether, in fact, there is any expected contribution for parents with an income of less than $10,000 depends upon other factors not included in the drawing of the EPC line. Inclusion of family assets in the determination of the EPC, for example, would shift the EPC border to the left. It is unlikely, however, that the EPC border would shift or bend far enough to the left to exceed the APC for low income parents. To get an estimate of the limit to which the EPC line might move to the left, the expected family contribution schedule used for determination of Basic Grant awards is plotted as EFC in Figure 7*. For two reasons this line represents an extreme position regarding the EPC. First, the Basic Grant methodology generates larger contribution expectations for low income families than does the CSS

*This schedule was interpolated and extrapolated from information presented in "An Approach to Federal Student Financial Aid — Concepts and Recommendations," by the Postsecondary Programs Division in the Office of Planning, Budgeting, and Evaluation, U.S. Office of Education, June 1978. The expected family contribution amounts are expressed as a percentage of an average student budget.

FIGURE 7

ACTUAL AND EXPECTED FINANCIAL RESOURCE COMPOSITION
OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT,
1978

(Showing Expected Student Contribution Equal to One-Third and
the Expected Family Contribution)



methodology. Second, since the EFC (based on the 10.5 percent tax rate) includes the expected student contribution, the expected parental contribution line lies to the right of the line shown. Even under these conditions, APC exceeds EPC until at least an income level of $15,000 to $19,999 is reached.*

Who is Squeezed in the Middle Income Squeeze?

Figure 7 is also interesting to view in terms of the allegation of a middle income squeeze. The EPC line intersects the APC line at about the $15,000 to $19,999 income level and, regardless of possible shifting of the EPC line, still intersects the APC line in the middle income range. Thus, middle income parents come the closest to paying what is expected of them. They could feel squeezed, however, if their situation has worsened over time or if they are in a more difficult position relative to other parents, but Figure 7 shows that relative to the proportion of expected parental contribution that parents actually pay, only higher income parents are paying less than middle income parents. The parents' perception of a squeeze may also be tied to the financial burden carried by their student children. The middle income student does pay a larger percentage of his or her education costs than other students. Even though this middle income student squeeze does not bear directly on the middle income parents financially, it can affect them as a family. What has been interpreted as a middle income parent squeeze may actually be a middle income student or family squeeze, voiced through the parents.

*The common intersection of APC, EPC and EFC is incidental.

V. Differences Among Institutional Sectors and Income Categories in the Resource Composition of the Student Budget

The Expected Student Contribution as a Percentage of the Cost of Attendance

Using the 1978 CIRP data, separate profiles of grants and parental and student contributions were drawn for each of the four institutional sectors and are presented in Figures 8 through 11. The shape of the institutional sector profiles are quite similar to the profiles in Figure 5. The greatest disparity is for the private two-year institutional sector (Figure 11) where both the parental and student contributions have more fluctuation from income category to income category, but the apportionments do follow the same general pattern shown in Figure 5. (Profiles were also drawn for institutions grouped by the amount of tuition they charged, but, again, there was very little distinction among the shapes of the profiles.)

Although the shape of the profiles are generally stable among sectors, the location or position of the lines varies. Referring to the four sectors, the parental contribution begins at or slightly above 10 percent for low income parents and rises to about 70 percent for the highest income parents except for students attending public two-year institutions. For these students the slope of the parental contribution boundary line is less steep and ends with a parental contribution for the highest income category of only 62 percent (Figure 9).

The student contribution border for students attending public four-year institutions (Figure 8) resembles that in Figure 5 more closely than the other sectors because of the large enrollment in the public four-year institutional sector, but there is little variation in the pattern for any of the institutional sectors. The largest exception is that for students at public two-year institutions (Figure 9). The student contribution line dips lower for the middle income students than others and ends (at the highest income category) lower than it begins (at the lowest income category). That is, students of wealthy parents in this institutional sector pay a larger share of their costs while their parents pay less than similar families in other sectors.

FIGURE 8

THE FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT, IN PUBLIC FOUR-YEAR INSTITUTIONS: 1978

(SHOWING EXPECTED STUDENT CONTRIBUTION EQUAL TO ONE THIRD)

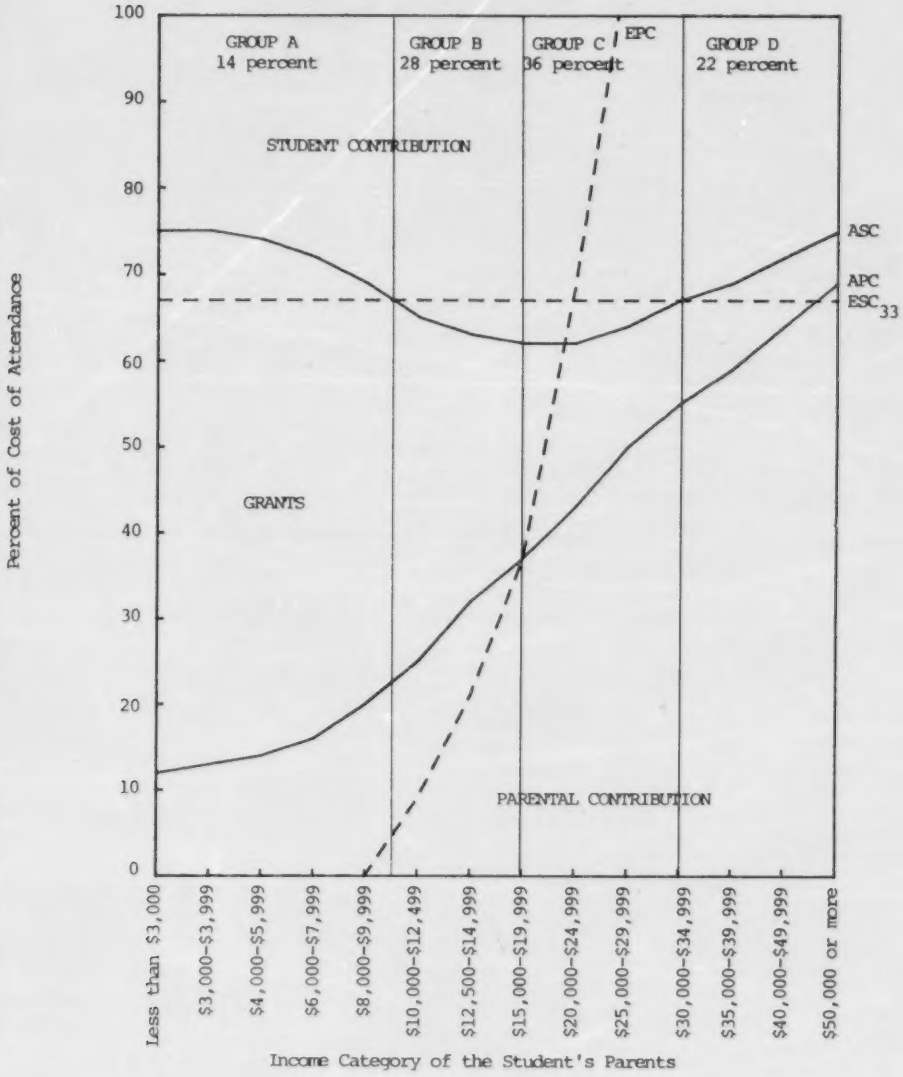


FIGURE 9

THE FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT, IN PUBLIC TWO-YEAR INSTITUTIONS: 1978

(SHOWING EXPECTED STUDENT CONTRIBUTION EQUAL TO ONE THIRD)

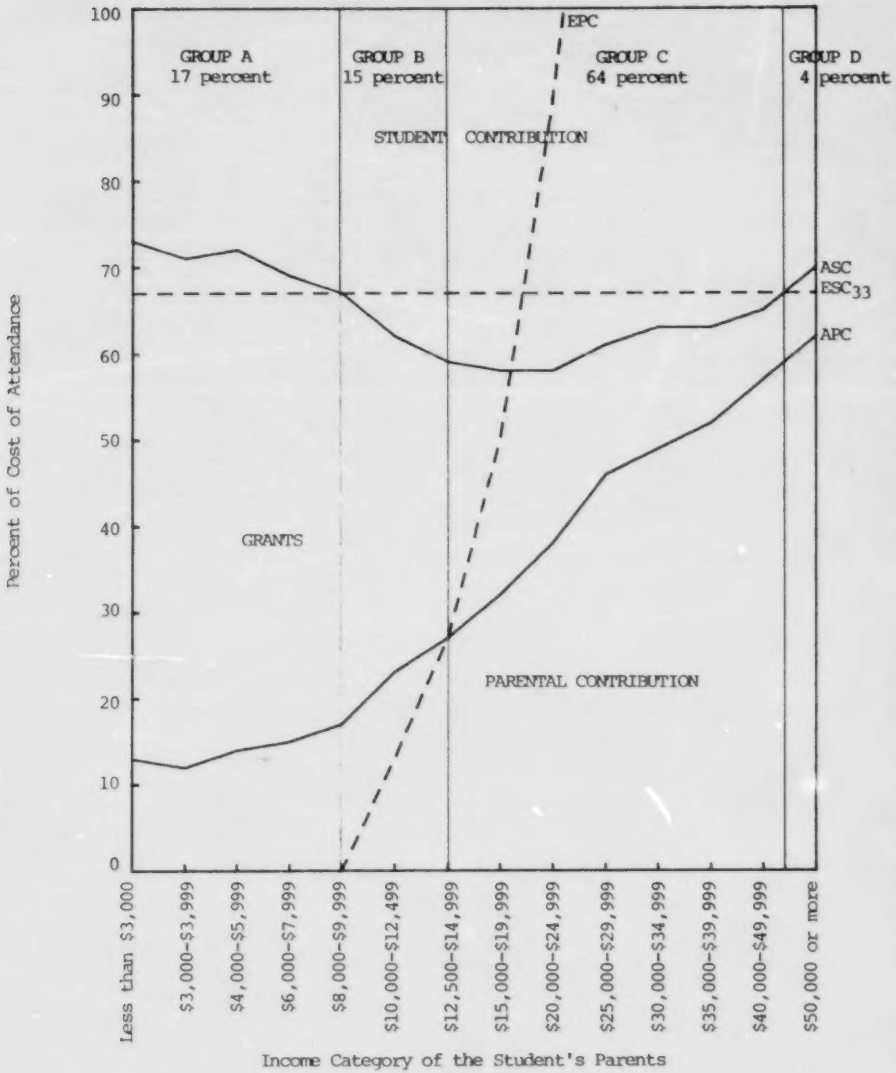


FIGURE 10

THE FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT, IN PRIVATE FOUR-YEAR INSTITUTIONS: 1978

(SHOWING EXPECTED STUDENT CONTRIBUTION EQUAL TO ONE THIRD)

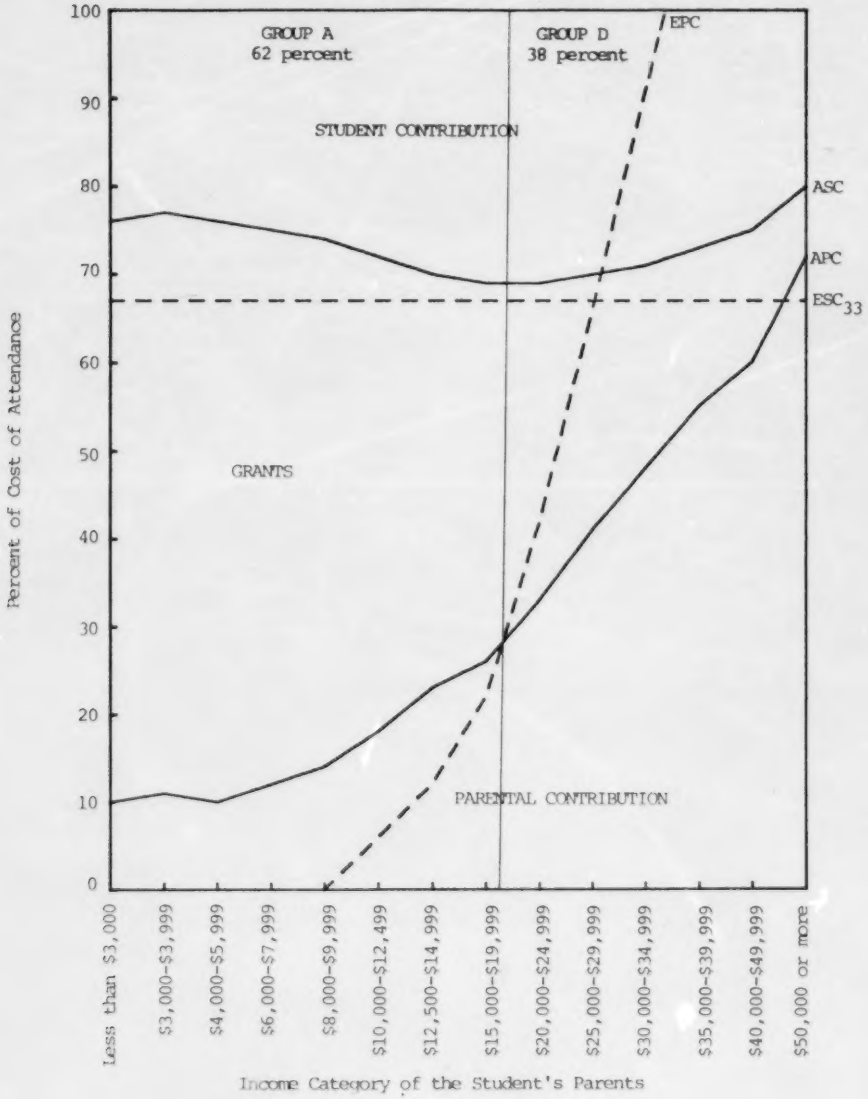
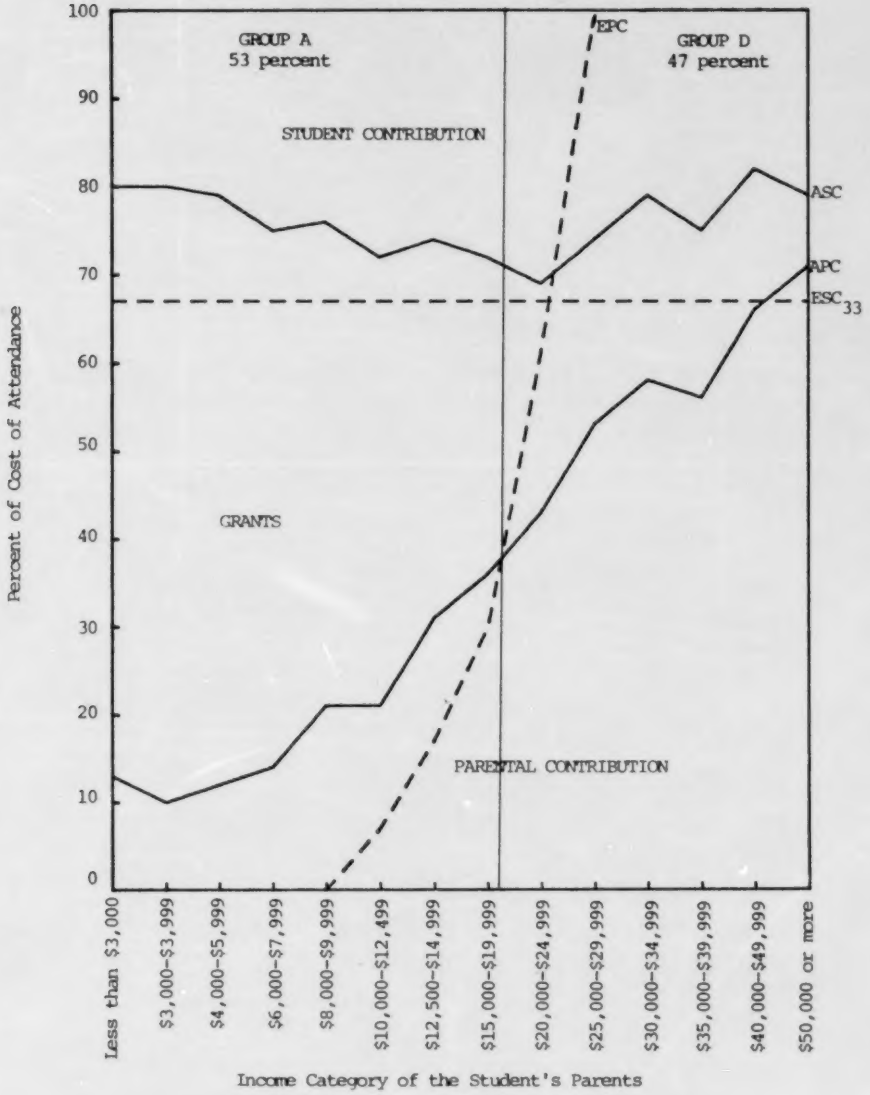


FIGURE 11

THE FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT, IN PRIVATE TWO-YEAR INSTITUTIONS: 1978

(SHOWING EXPECTED STUDENT CONTRIBUTION EQUAL TO ONE THIRD)



Another exception among the student contributions is the levels of contribution among the four institutional sectors. The contribution averages 30 percent of the student cost of attendance, but at both public four-year and two-year institutions, a sizeable portion of middle income students pay more than they should. At public four-year institutions (Figure 8) 64 percent of students, those with parental income between $10,000 and $35,000 (Groups B and C), pay more than they should. At public two-year institutions (Figure 9) the comparable figure is 79 percent, but most of these students have parents who do not pay as much as they should (Group C).

At public two-year institutions, only the four percent of students with the highest parental income, according to the standard of paying one-third of the direct cost of attendance, contribute less than is expected of them.

In contrast to the public institutions are the private institutions at which students, on average, at all income levels contribute less than a third of the cost (see Figures 10 and 11). However, on average, all parents of students with a parental income of less than $20,000 at private institutions, which constitutes 62 percent of the students attending private four-year institutions and 53 percent of those attending private two-year institutions, contribute more than they should.

The Expected Student Contribution as a Fixed Dollar Amount

Another way to view the appropriateness of the magnitude of the student contribution is to compare it with a fixed dollar amount that might be expected of all students. In this section, the actual student contributions are compared with an expected student contribution of $1,500. The $1,500 is expressed as a percentage of the 1977 budgets and is shown as the ESC_{1500} line in Figures 12 through 15. Of course, the size of the disparity between actual and expected student contributions can be manipulated by changing the dollar amount of the expected student contribution, but a $1,500 expected student contribution, which is within the range of estimates of what can be expected of a student (including unsubsidized loans), shows that the difference between actual and expected student contributions is less at private institutions, especially private four-year institutions than at public institutions.

At private four-year institutions (Figure 14), students with parental income greater than $10,000 and less than $40,000 pay, on average, more than $1,500 while students of greater or lesser income pay, on

average, less than $1,500 toward the cost of their education. Students attending institutions in any of the other three institutional sectors actually contribute less than expected (Figures 12, 13 and 15). The difference between actual and expected student contributions is the greatest at public two-year institutions (Figure 13) where a $1,500 contribution equals 50 to 60 percent of the student's cost of attendance. Students, however, actually contribute only 30 to 40 percent of the cost of attendance.

A comparison of the two standards — the fixed percentage of one-third and the fixed dollar amount of $1,500 — with actual contributions does not indicate large disparities for most students.

Considering that the budget estimates derived from the 1977 CIRP data, and especially for four-year institutions (public and private), overstate the actual budget amounts by about 15 to 20 percent, the ESC_{1500} boundary line should be lower than it is by a similar percentage, indicating a larger expected student contribution than shown in Figures 12 through 15.

Consequently, at public four-year institutions, only middle income students pay more than is expected of them and then only according to the fixed percentage-of-cost standard. At public two-year institutions, a broader range of middle income students pay more than they should according to the same standard.

At private four-year institutions, middle income students pay more than they should according to the fixed dollar contribution but at private two-year institutions students in no income category pay as much as they should. In those instances in which all categories of students contribute less than they should, it is the students of middle income parents who come the closest to paying what is expected of them.

It is worth noting that the disparity between the two expected contribution standards is the greatest for public two-year institutions. The percentage-of-cost standard for an expected student contribution indicates that nearly all students contribute more than is expected of them while the fixed-dollar standard shows no student paying enough.

FIGURE 12

THE FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT, IN PUBLIC FOUR-YEAR INSTITUTIONS: 1978

(SHOWING EXPECTED STUDENT CONTRIBUTION EQUAL TO $1500)

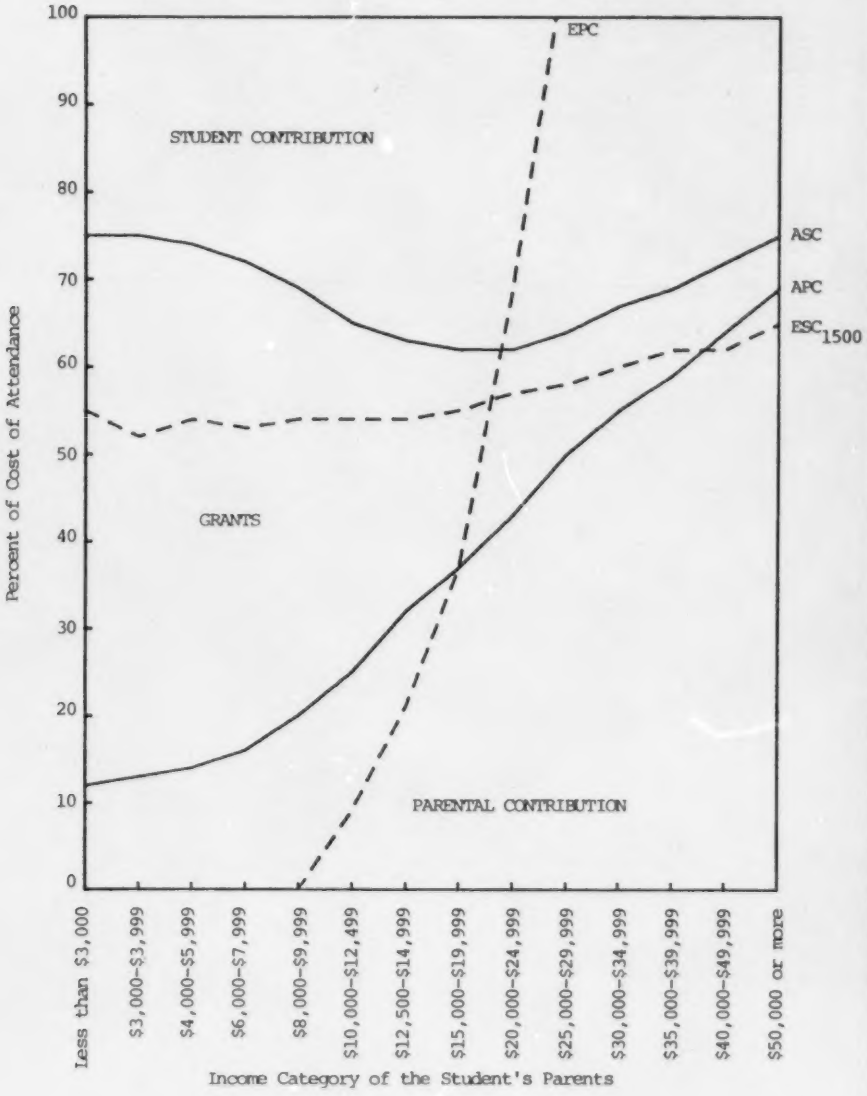


FIGURE 13

THE FINANCIAL RESOURCE COMPOSITION OF THE
DIRECT COST OF ATTENDANCE TO THE STUDENT,
IN PUBLIC TWO-YEAR INSTITUTIONS: 1978

(SHOWING EXPECTED STUDENT CONTRIBUTION EQUAL TO $1500)

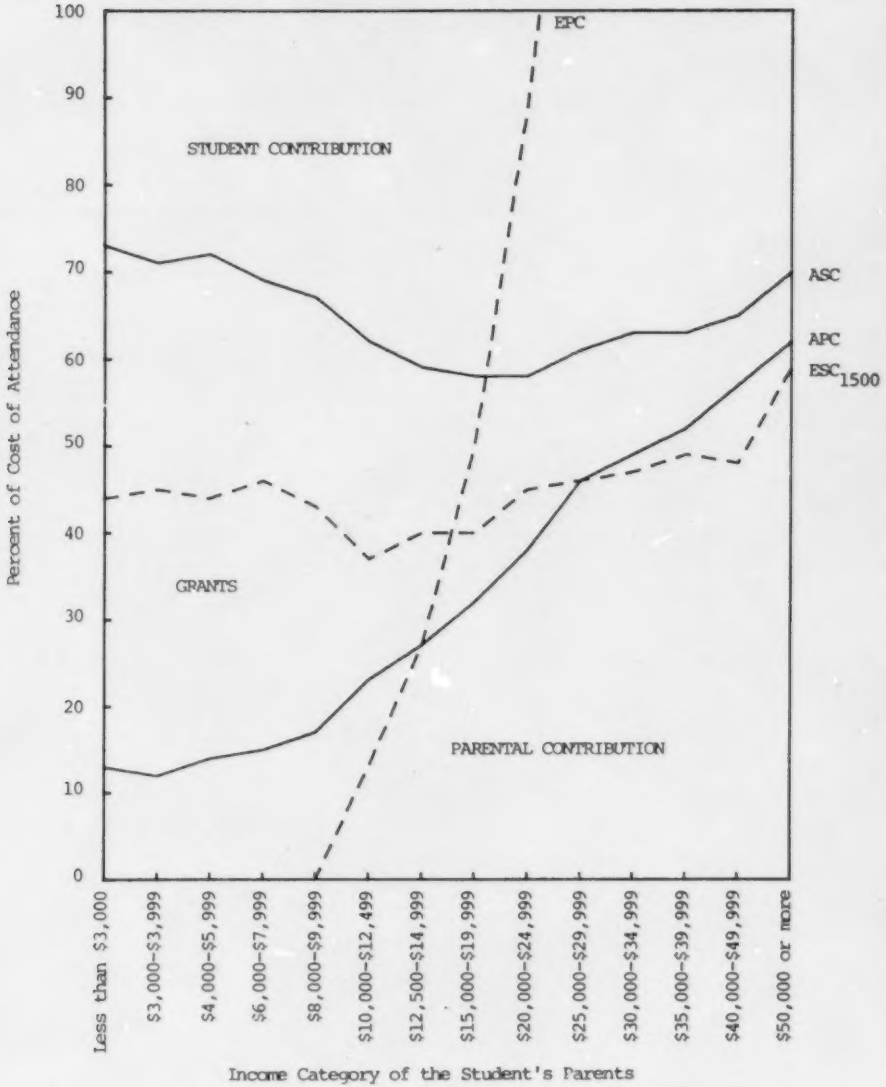


FIGURE 14

THE FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT, IN PRIVATE FOUR-YEAR INSTITUTIONS: 1978

(SHOWING EXPECTED STUDENT CONTRIBUTION EQUAL TO $1500)

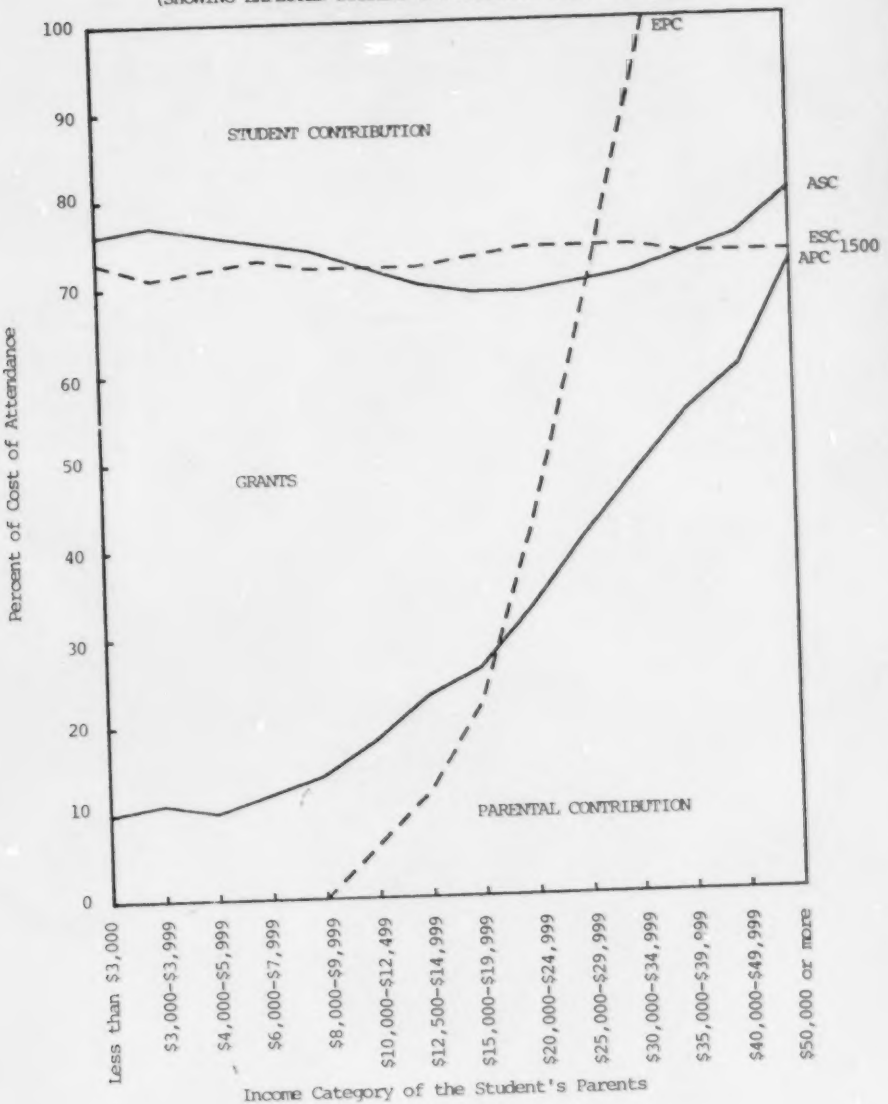
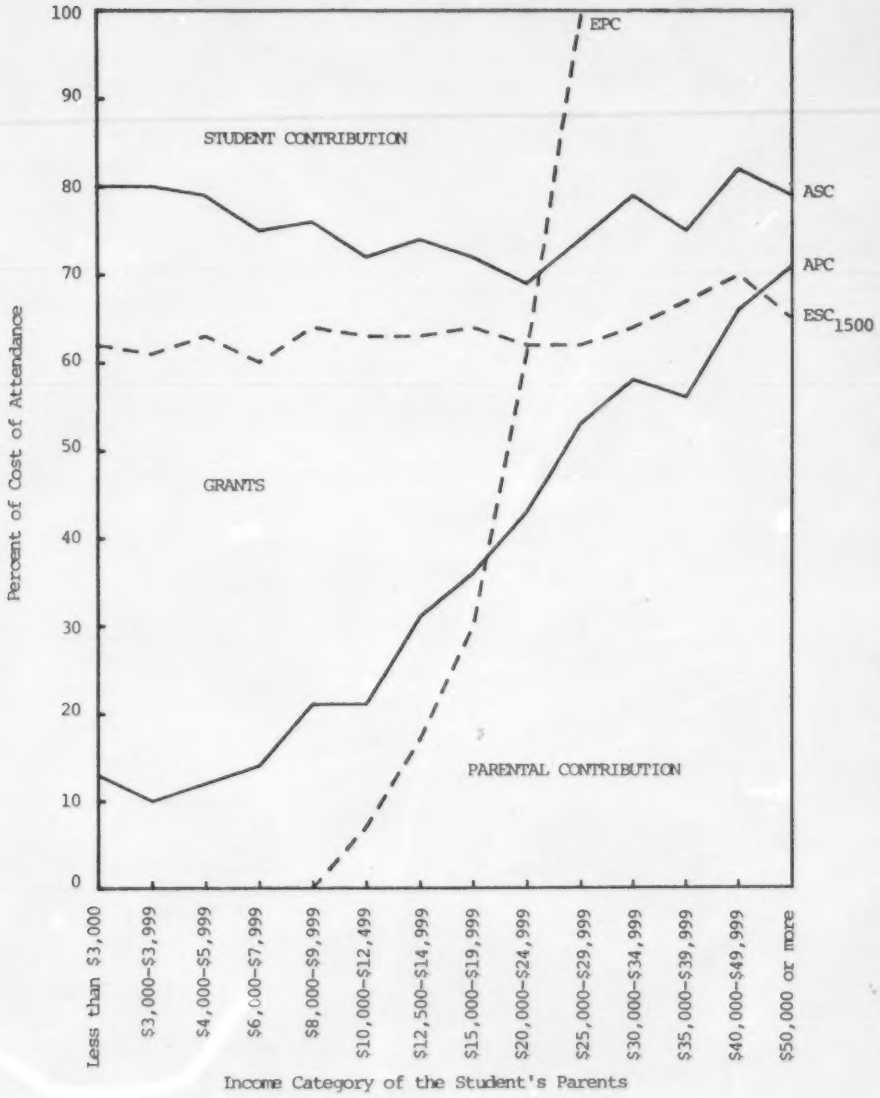


FIGURE 15

THE FINANCIAL RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT, IN PRIVATE TWO-YEAR INSTITUTIONS: 1978

(SHOWING EXPECTED STUDENT CONTRIBUTION EQUAL TO $1500)



VI. Community Colleges: Do Their Students Receive Their Fair Share?

The disparities in the resource composition of budgets have been shown for students of varying parental income, in aggregate, and for students of varying parental income in each of the four institutional sectors. However, some of the disparities among sectors can be highlighted by combining the information for all income categories, as has been done in Table 1.

TABLE 1

RESOURCE COMPOSITION OF THE DIRECT COST OF ATTENDANCE TO THE STUDENT BY INSTITUTIONAL SECTOR, FALL 1978

	Institutional Sector				
	Public Four-Year	Public Two-Year	Private Four-Year	Private Two-Year	All Sectors
Parental Contribution	37.8	32.5	37.4	36.5	37.1
Student Contribution[a]	32.6	37.9	27.5	25.8	32.6
Grants	29.6	29.6	35.1	37.7	30.3

[a]Components of the student contribution are student's savings and earnings and loans, net of their grant portion.

As already stated, on average, parental contribution, as a percentage of the student's budget, is fairly constant across sectors except for students at public two-year institutions. For students at public four-year institutions, parental contribution is 37.8 percent; private four-year institutions, 37.4 percent; and private two-year institutions, 36.5 percent. At public two-year institutions, however, it is only 32.5 percent. This lesser parental contribution is made up by a larger student contribution. Public two-year students contribute 37.9 percent of the direct cost, compared to 32.6 percent for the average for all sectors.

Some claim that community college students do not receive their share of grant funds, but a judgment depends on the unit of observation. On the one hand, if the unit of observation is the family, then the community college student is no worse off than students at public four-year institutions, that is, he or she receives the same proportion in grant aid as students at public four-year institutions. On the other hand, if the unit of observation is that of the student, the community college student pays a larger proportion of his or her costs than do students attending elsewhere and should receive more grant aid.

The major difference in the proportion of grant aid comprising the budget occurs between public and private institutions. Public students receive grant aid equal to just under 30 percent of their budget. For students at private institutions, the percentage is about 36 percent.

If grants are intended to compensate students for the lack of parental ability or willingness to pay, then the sum of the parental contribution plus grants should be constant, and then, of course, so should the student contribution. However, as just shown, community college students pay a larger share of costs than other students, and public students pay a larger share than private students.

This situation might be acceptable on a different basis — that it is a compromise between the standards of strict proportionality of cost and a fixed dollar amount in assessing the amount that each party should bear. The argument would be that requiring the student to pay a declining proportion of cost as cost increases results in the student paying more for more expensive education but also eases his or her financial burden. This compromise position, however, is not completely established among institutional sectors. Table 2 shows the product of the relative size of the budget in the four sectors and the percentage of the budget financed by the student's contribution. The product is the comparative dollar rate among institutional sectors that students pay. A student attending a private four-year institution, the most expensive type of institution, should pay the largest dollar amount but the smallest percentage amount.

According to this declining-proportion-of-cost standard, it is not maintained for the two-year institutions. Private four-year institutions are the most expensive (relative cost is $140.20), and the student pays more to attend a private four-year institution (relative payment is $38.60) than to attend other institutions, but the percentage of cost that the student pays (27.5 percent) is not the lowest since students at private two-year institutions pay only 25.8 percent of the cost. In contrast to this, the public two-year institutions are

TABLE 2

RELATIVE DOLLAR AMOUNT FINANCED BY THE STUDENT, BY INSTITUTIONAL SECTOR, FALL 1978

	Public Four-Year	Public Two-Year	Private Four-Year	Private Two-Year	All Sectors
Relative size of budget	$ 94.10	$ 73.10	$140.20	$101.00	$100.00
Student contribution as a percentage of the budget[a]	32.6	37.9	27.5	25.8	32.6
Dollar rate paid by the student	$ 30.70	$ 27.70	$ 38.60	$ 26.10	$ 32.60

[a]Components of the student contribution are student's savings and earnings and loans, net of their grant portion.

the least expensive ($73.10), and the percentage of costs paid by the student is the highest (37.9 percent) but the dollar amount paid is not the lowest, as it should be according to the declining-proportion-of-cost standard. Since private two-year institutions are more expensive than public two-year institutions, application of the standard would dictate that the dollar rate of contribution of the students be greater for students at private two-year institutions than for students at public two-year institutions. In fact, the situation is reversed. Public two-year students pay $27.70 ($1.06) for every $26.10 ($1.00) that private two-year students pay.

By either standard of financing that uses the student as the unit of observation, community college students pay more than they should.

VII. Institutional Expenditures Per Student Dollar Expenditure

The measures of equity discussed up to this point are based on what students pay. Another way to judge equity among students is in terms of the amount they pay relative to the total expenditure made for the education they receive. In nearly all instances, even in cases in which the student receives no direct student financial aid, the value of educational services received is greater than the dollar amount paid by the student because of institutional subsidies, gifts and endowments that allow institutions to charge students less than the amount it costs the institution to provide the educational services received by the student.

For each of the four institutional sectors, the ratio was calculated of institutions' educational and general expenditures to the net cost to the student. From Table 3, it is seen that students get the "best deal," assuming that all institutions are equally efficient at "producing" education and that the average cost of providing particular services is the same for one type of institution as for another, at public four-year institutions where a dollar "buys" $3.59 of education. At public two-year institutions, however, a dollar buys only $2.03 of educational services.

Students at private four-year institutions also receive large amounts of education for the money they spend for education. The student is given $2.77 of education for each dollar the student contributes. Students at private two-year institutions receive slightly less ($1.77) than students at public two-year institutions.

The difference in institutional expenditures per student dollar spent is due to two differences: the difference between the cost to the institution of providing education and the cost of attendance to the student and the difference between the cost of attendance to the student and the actual, direct cost that the student pays. The first difference is primarily a function of institutional tuition pricing policy; and the second, a function of the distribution of student financial aid. Regardless of the reason, students attending two-year institutions, either public or private, receive, according to this criterion, less support than students attending four-year institutions.

TABLE 3

AVERAGE INSTITUTIONAL EXPENDITURES PER AVERAGE NET COST TO THE STUDENT, BY INSTITUTIONAL SECTOR, FALL 1977

	Net Cost to the Student[a]	Institutional Expenditures per FTE[b]	Column 2 ÷ Column 1
Public Four-Year	$1,269	$4,557	$3.59
Public Two-Year	1,218	2,468	2.03
Private Four-Year	1,903	5,262	2.77
Private Two-Year	1,346	2,388	1.77

[a]Net cost to the student equals the sum of funds from the student's savings and earnings and the face value of loans used to meet his or her educational costs.

[b]Institutional expenditures are the sum of total education and general expenditures, as used by the U.S. Office of Education.

Source: Net cost to the student is calculated from CIRP 1977 data; institutional expenditures per FTE are from the National Center for Education Statistics, Fall Enrollment in Higher Education 1977, pp. 30 and 32, and unpublished expenditure data for FY77.

Summary

Much of the confusion over the assessment of what constitutes equity in the distribution of student financial aid stems from unclear definitions and an unclear context of equity, and the degree to which equity is achieved depends upon the measures and definitions used. For example, equity among income categories may be achieved from the student's perspective although it may not be when viewed from the family's position. Furthermore, whether parents or students contribute more or less than is "expected" of them depends upon how the expected contribution is calculated.

The resource composition of the student's cost of attendance shows that middle income students pay more than their poorer or wealthier colleagues. In comparison with an expected contribution of one-third of the cost of attendance, middle income students pay more than they should and other students pay less than they should. If the student contribution is set as a fixed dollar amount of $1,500, then the average student in no income category pays enough (except some students in private four-year institutions), although middle income students come the closest to paying what is expected of them according to this standard.

The actual contribution of parents also comes the closest to the amount expected of them for middle income parents. Lower income parents pay more than they should; and higher income parents, less. While the ability to pay relative to the cost of education may have worsened over the last few years for middle income people, it is clear that, in terms of disparities between actual and expected contributions, there is a middle income squeeze, but the squeeze is on the student and not the parents.

Disaggregating the resource composition of the student's cost of attendance by institutional sector reveals the same general, overall pattern of middle income students paying more compared to what other students pay. The difference between the percentage and fixed dollar amount of expected student contributions is not much for students at private institutions. At public institutions, however, the difference between standards is greater. At public two-year institutions nearly all students pay more than a third of the cost of attendance, but for no income category does the student contribution amount to $1,500.

By several measures it seems that community college (public two-year) students pay more than they should. As a percentage of the cost of attendance, community college students pay more than students attending elsewhere. They receive, however, as much grant money, as a percentage of their cost of attendance, as public four-year students. The difference is due to the parental contribution portion. Parents of students at community colleges contribute less than parents of other students even though they have the same income.

If one assesses the equity of the student contribution in terms of the student paying a smaller proportion of costs, but more dollars, for more expensive education, the community college student still does not fare well. While the cost of attendance is more for a student at a private two-year institution than at a public two-year institution, the community college student on average pays more dollars than the student at a private two-year institution.

This situation is alleviated, however, if one compares the amount a student pays with the value of the educational services provided the student. Community colleges provide more institutional expenditures per dollar paid by a student than private two-year institutions, although both types of institutions offer less financial resources per student dollar than either public or private four-year institutions.

In sum, although the specific outcome depends on the standard of evaluation applied, in relative terms two results are consistently found. Middle income students carry a larger financial burden than their poorer or wealthier colleagues, and students attending community colleges pay more for what they get than students attending other types of institutions. As a percentage of the cost of attendance, they pay more than students attending other types of institutions. In terms of paying a smaller proportion of cost but more dollars for higher priced education, the community college student should pay less than a student at a private two-year institution, but on average pays more. Finally, in terms of institutional expenditures per dollar spent for education by the student, community college students (and students at private two-year institutions) receive less per dollar spent by them than students at four-year institutions.

Appendix A

Average budgets were calculated in the following way. For each of the 20 sources of income listed in the CIRP questionnaire for meeting the student's first-year educational expenses, an average was calculated, and then the 20 averages were summed to yield an average student budget. This was done for each of 14 income categories.

It should be mentioned that the 1978 budget figures are not comparable to the 1977 budget figures for two reasons. First, some of the response intervals for the 1978 CIRP questionnaire imply smaller amounts than those for the 1977 questionnaire. For example, the maximum interval that could be chosen in the 1977 questionnaire was "Over $4,000"; in 1978, it was "Over $2,000." The effect is to reduce the 1978 budget estimates relative to the 1977 estimates. (The 1977 response intervals produced budget estimates that were generally of the same magnitude as those reported by other sources.)

A more serious difference is that individuals who did not respond to a particular item in the question on sources of income were given a value of zero for that item. Since about 20 percent of the 1977 CIRP respondents did not answer any particular budget item, assigning zeros to these individuals would greatly bias the resulting budget estimates downward if approximately the same percentage of the 1978 students did not respond to the question items.

For the calculations in this report, the percentage of students taking the survey but not responding to a particular item was assumed to be equal for all items. If this assumption is valid, average budget item amounts as a percentage of the total budget are not biased.

In the discussion of expected contributions shown in Figures 6 and 7, the EPC and EFC schedules, initially given in dollar amounts, were converted to percentages using the 1977 CIRP total budget estimates inflated by 7 percent.

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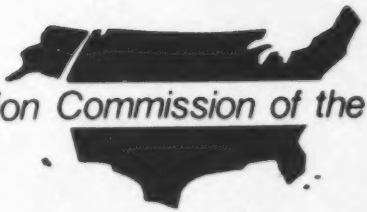

Education Commission of the States

The Education Commission of the States is a nonprofit organization formed by interstate compact in 1966. Forty-seven states, American Samoa, Puerto Rico and the Virgin Islands are now members. Its goal is to further a working relationship among governors, state legislators and educators for the improvement of education. This report is an outcome of one of many commission undertakings at all levels of education. The commission offices are located at Suite 300, 1860 Lincoln Street, Denver, Colorado 80295.

It is the policy of the Education Commission of the States to take affirmative action to prevent discrimination in its policies, programs and employment practices.